

NLC INDIA BUY BACK OFFER**CMP: Rs.73.70**

NLC India Limited (formally known as NEYVELI LIGNITE CORPORATION LIMITED) at its board meeting held on October 09,2018 announced to buy back 14,19,31,818 shares (9.28% of its equity) through a **tender offer at a price of Rs.88 per share** resulting in a total offer size of Rs. 1248.99 cr. The company has indicated about the intention of promoters to participate in the offer.

SEBI GUIDELINES:

SEBI in 2012 had amended the buy back regulations by passing SECURITIES AND EXCHANGE BOARD OF INDIA (BUY-BACK OF SECURITIES) (AMENDMENT) REGULATIONS, 2012 as per which **small shareholder holding shares as on the record date of Rs.2 Lakhs or less will get reservation in the buyback offers to the extent of 15% of the buyback size.**

So, as per SEBI regulations, 15% of the offer size comes out to be Rs.187.35 cr, which will be reserved for small shareholders holding shares upto a value of Rs.2 lakhs as on the **record date**.

ESTIMATED CALCULATIONS:

Total shares to be bought back as per BUYBACK OFFER:	14,19,31,818 shares
15% reserved for Small Shareholders (Retail)	2,12,89,772 shares
No. of shares held by Small Shareholders holding less than 3000 shares (as per 31.03.18)	2,17,71,303 shares
Expected Theoretical Acceptance Ratio	97%
Current Market Price (as on 09.10.2018)	Rs.73.70
Buyback Price	Rs.88
Potential Absolute Returns	19.30% (approx)
Time Frame	5-6 Months
Annualized Yield	40% p.a.

BUYING STRATEGY

**Buy 2270 shares (to be eligible for small shareholders category)
Investment Amount (as per CMP as on 09.10.2018): Rs.1,67,299**

**Assuming 97% acceptance ratio, 2200 out of 2270 shares will be
tendered @88 i.e. buy back price.
Profit on 2200 shares: Rs.31,460**

**Therefore, Investors can earn an absolute return of 19% (subject to
short term capital gains tax) over the next 5-6 months (average time
taken from buy back announcement date to payout date) leading to
an annualized return of 40% p.a.**

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**Note: Unaccepted shares in the tender offer are to sold off
immediately on the date of payout.**

KEY POINTS STUDIED:

- We feel that there will be 97% acceptance ratio taking into consideration the shareholding pattern as on 31.03.18 and 30.06.18.
- Most small shareholders do not take part in such offers which results in acceptance ratio becoming high. We don't yet have the data of exact number of shareholders holding shares of market value **of Rs.2 lakhs** which will be **on the record date**.

KEY RISKS:

- **Low Acceptance Ratio:** Post Mar 2018, if a lot of new shareholders have been added (holding less than 2270 shares) then the acceptance ratio could be less than stated above. Similarly if a lot of new investors buy at current price (from now till the record date) with the objective of tendering the shares in buyback then the acceptance ratio is likely to drop. This was seen in HCL tech, Wipro and Mphasis where the tendering was more than the shares held (on the last annual report date) resulting in low acceptance ratio. Investors who now buy the shares to benefit out of this opportunity will then have to sell the unaccepted shares in the open market which could result in lower return based on the then prevailing market price.
- Purchase Price other than Rs.73.75 will change all the returns/calculations done above.
- Drastic fall in share price.

Disclaimer:

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